

SPECIAL FINANCE & ECONOMIC DEVELOPMENT (TOURISM / VISITOR
INDUSTRY / SMALL BUSINESS DEVELOPMENT / SPORTS & RECREATION
DEVELOPMENT / OTHER ECONOMIC DEVELOPMENT AREAS)
COMMITTEE MEETING
COST REDUCTION WORKSHOP

November 6, 2014

The Finance & Economic Development (Tourism / Visitor Industry / Small Business Development / Sports & Recreation Development / Other Economic Development Areas) Committee Meeting, Cost Reduction Workshop, of the Council of the County of Kaua'i was called to order by Mason K. Chock, Sr., Chair, at the Council Chambers, 4396 Rice Street, Suite 201, Līhu'e, Kaua'i, on Thursday, November 6, 2014 at 9:23 a.m., after which the following members answered the call of the roll:

Honorable Mason K. Chock, Sr.
Honorable Gary L. Hooser
Honorable JoAnn A. Yukimura
Honorable Jay Furfaro, Ex-Officio Member (*present at 9:31 a.m.*)

Excused: Honorable Ross Kagawa
Honorable Mel Rapozo
Honorable Tim Bynum, Ex-Officio Member

Committee Chair Chock: Before I start, I am going to move to public comment, but I know that the Mayor is on a schedule this morning and has to run out, so I just wanted to make some opening comments real quickly about what this is about. Councilmember Hooser approached me in discussing just the process that we have gone through in this past Budget Session and some of the tax changes that we worked on and worked on together with the Administration to move forward. We thought that it might be a good time to just start the forecasting, although very premature and very early, to have a discussion about where we are headed and how we might be looking for the future. This workshop is not in any way about making decisions. It is about starting a conversation. We certainly do not want it to be a back and forth or finger pointing exercise. We want this to be a collaborative exercise where we can start to just discuss the possible solutions in moving forward, so that we can be proactive in making some solid decisions in the future. I just wanted to point that out. With that, I will suspend the rules. Mayor Carvalho, celebratory congratulations to you. Thank you for being here this morning.

SCOTT K. SATO, Council Services Review Officer: Committee Chair, can we get an approval of the agenda?

Committee Chair Chock: Yes. Thank you.

APPROVAL OF AGENDA.

Councilmember Hooser moved for approval of the agenda as circulated, seconded by Councilmember Yukimura, and carried by a vote of 4*:0:3 (*Pursuant to Rule No. 5(b) of the Rules of the Council of the County of Kaua'i, Council Chair Furfaro was noted as silent (not present), but shall be recorded

as an affirmative for the motion; Councilmember Bynum, Councilmember Kagawa, and Councilmember Rapozo were excused).

Committee Chair Chock: Good morning, Mayor.

BERNARD P. CARVALHO, JR., Mayor: Good morning, Councilmembers Chock, Hooser, and Yukimura. *Mahalo* for this opportunity and we are here as a team to talk story. Of course, we have this Cost Reduction Workshop, which is looking at some of the options and telling our story. When I heard about this opportunity— I call this an opportunity to talk story, as I have always said, and hopefully as we go through the presentation— our Managing Director Nadine Nakamura and our Director of Finance will be on shortly. This is important to me and our team. All of our department heads are here. We went together through this presentation. They all understand where we are at, so I just wanted to make that clear. As we move forward, it always narrows down to the budget and how we are going to manage our fiscal operations. I am very happy to be here. As we go through the presentation, we are going to share areas where we have grown, where we have cut costs, looking at options to reduce costs, cost-saving measures, and some of the challenges. We have to talk about results and solutions here— enough already about all these other kinds of back-and-forth. We are hoping that with this presentation— this is not to say “yay” or “nay,” or this is one over the others. We are trying to figure out how we really can develop this roadmap and follow through on some of the challenges we have before us. It is difficult. I think we will see through this presentation that we have to continuous (inaudible) balance. No matter what at the end, we are going to look at being very reasonable in how we address our budget; fair, consistent, balanced, and as a team. I think in our conversations with our team members from the different departments, you are going to see some receiving more than others, others getting less here, and you are going to see a slide that looks at our Transportation, Economic Development, Elderly Affairs, and Housing, and how important those functions are. Imagine if we had to eliminate that? Oh, my goodness. Just to sort through some of the thorough discussions that we have had as a team, on this side, and giving options and looking at solutions. I wanted to open up with that and assure you that we are trying every which way and we are already moving right into our fiscal strategic plan that will give us more understanding of what we have kind of right in the past, what we have presently, and looking forward to even two (2) more future fiscal years, so we can get a good understanding. With this particular workshop, you will see some of the results and the graphs that will come up that hopefully— Again, it was not an “against one or the other,” but more to share information that we have put together, where we could get some good, healthy dialogue. Of course for the people who are watching this, to give them a better understanding of what is our understanding really of our budget situation and tying it into your understanding and going from there. With that, thank you for this opportunity. We will move right into the presentation and you will see what our story is and looking forward to some healthy dialogue. Thank you.

Committee Chair Chock: Thank you, Mayor. Did you have a question for the Mayor?

Councilmember Hooser: I did not have a question, but I wanted to give some brief remarks, if I may?

Committee Chair Chock: Absolutely.

Councilmember Hooser: Not only to the Mayor, but to everybody and the public. I want to thank everybody. Everybody has a lot of important work to do and you are here today. I know a lot of you are thinking like "I have to get back to work and finish this," so I really appreciate everyone taking their time. Today's discussion, in my opinion, is both a reactive and a proactive discussion. It is no secret that the Election was on the 5th, Tuesday, and the preceding months that the County, both the Administration and the Council, has been pounded repeatedly about raising taxes, about why we are not cutting costs, and all those kinds of things. It is unfortunate that some of the loudest voices with that refrain are not here with us today, both on that side of the rail and on this side of the rail. I think it is important that the public knows that it is not easy to make these changes, cuts, and those kinds of things. It is important—I am sorry. I lost my train of thought here. This is intended to start fresh for me, so to educate the Council and educate the public is the situation that it is not easy to make cuts. I know that it is not easy just to slash and burn. At the same time, raising taxes are not the only option. We have been hearing this refrain from the public, "You cannot raise taxes," and this whole criticism of the budget. I think this is a way to kind of just get settled on that and to move forward with a realistic discussion, that we cannot just cut eight million dollars (\$8,000,000), five million dollars (\$5,000,000), or one million dollars (\$1,000,000) so easily, and that there are sincere efforts being presented by the Administration and that we want to work together with you on that. I think that is a realistic setting for where we are at here today. Honestly, it is reactive as well as proactive and I think that is important to put that on the table. Thank you for being here, Mayor.

Mr. Carvalho: Thank you.

Committee Chair Chock: Councilmember Yukimura.

Councilmember Yukimura: Very briefly, Mayor, I just want to congratulate you first of all, and then thank you and your team for being here. It has been a very turbulent three (3) to five (5) months and I know you and the others have been going through a lot of issues that are related to County government. I so appreciate the work that has been done and it will be continued. I do agree that this is as much educational and joint problem-solving, as it is trying to figure out where to cut. I do appreciate the presence of those here. I wished that those who are absent were here. I trust that they will watch this whole thing, just like Planning Commissioners are required to review the record when they are absent, so that they will be up to speed and as informed as we all are today. Thank you.

(Council Chair Furfaro is noted as present.)

Committee Chair Chock: Thank you. Chair, I just offered some opening comments, so you may if you wish to as well.

Council Chair Furfaro: Good morning, Mayor.

Mr. Carvalho: Good morning, Chair Furfaro.

Council Chair Furfaro: I know it is a Committee Meeting, but I am glad to see your staff here to talk about this matter. On Friday, I circulated my comments because I am not a member of this Committee. Did you folks get my comments?

Committee Chair Chock: I did.

Council Chair Furfaro: Has the Mayor's staff got a copy of my comments here? These are items to me that certainly beg to visit in the future. Obviously, the big numbers are certainly tied to the Bargaining Unit Agreements—almost seven million one hundred thousand dollars (\$7,100,000) in my calculations. We should be further concerned of the fact that even if we visit with Legislature this session, it looks like the cap is for two (2) years and I think balancing what we have in standard operating expenses versus our opportunity for other funds from federal government grants, State items, and the Transient Accommodations Tax (TAT) really further complicate the financial picture. I know you know in the past that as the Council Chairman, I have worked with the other Chairmen to lobby to the need of our TAT share. I would really like to see a uniformed approach, which the Conference of Mayors, the Hawai'i State Association of Counties (HSAC) group, as well as the Association of Chairmen because we really do need one (1) voice here. During my term on the Council, we have added almost seventeen (17) lifeguard positions because public safety is one of the biggest things associated with a government requirement. There really has to be uniformed message here by all of the associations as it relates to the TAT. I guess I am very pleased. This is not my meeting. This is Vice Chair Chock's meeting, but I am delighted that you have your staff here to recognize the sense of urgency at the same time and realize that we really need a uniform strategy here going forward. Thank you, Mayor.

Mr. Carvalho: Hopefully in your communication, it is already unfolded into our presentation from what you said. Our fiscal team worked really hard in getting down to the details and really working closely with the department heads. This presentation encompasses all of us. I just want you guys to know that as we move forward.

Council Chair Furfaro: That is the only way to do it. Although I already have my new business card, I will give you one, Mayor. They spelt my name wrong with an "s." It says "Jay Surfaro. Have surfboard; will travel." The picture I am trying to paint...

Mr. Carvalho: Chair Furfaro, thank you so much for your leadership.

Council Chair Furfaro: The picture I am trying to paint is that when you get my narrative, I do not think it is going to be much different from your staff. Scott, who I depend on a lot from our staff, really did a good job addressing the things that I want to convey in that. We need to find the common items, and then work out from there because it is not going to get any better. I am going to take a close look at what your presentation is too.

Mr. Carvalho: Right.

Council Chair Furfaro: They are making copies of mine and it is going to be circulated. Thank you, Mr. Chock.

Committee Chair Chock: Thank you.

Mr. Carvalho: *Mahalo.*

Committee Chair Chock: At this time, I would like to move us to public comment. I do see that we have some people in the audience that would probably like to speak. Public comment is three (3) minutes up front here with the focus of this workshop. If you prefer to listen to the actual presentation first, and then do some public testimony, that is fine. We have one person signed up, so if you can read his name.

PUBLIC COMMENT.

Pursuant to Council Rule 13(e), members of the public shall be allowed a total of eighteen (18) minutes on a first come, first served basis to speak on any agenda item. Each speaker shall be limited to three (3) minutes at the discretion of the Chair to discuss the agenda item and shall not be allowed additional time to speak during the meeting. This rule is designed to accommodate those who cannot be present throughout the meeting to speak when the agenda items are heard. After the conclusion of the eighteen (18) minutes, other members of the public shall be allowed to speak pursuant to Council Rule 12(e).

Mr. Sato: The first registered speaker is Gary Pierce.

Committee Chair Chock: Good morning, Mr. Pierce.

There being no objections, the rules were suspended to take public comment.

GARY PIERCE: Good morning. Gary Pierce for the record. This is about budgeting and various ways on how we can save money. Right now, the County is basically bankrupt. You can continue on your current spending and under this budget that I have in front of me, we are eight million dollars (\$8,000,000) to nine million dollars (\$9,000,000) deficit spending. The tax cuts were approximately ballpark eleven million dollars (\$11,000,000) to twelve million dollars (\$12,000,000) deficit spending. There are two (2) ways you can go: you can raise taxes or you can cut spending. This workshop is about cutting spending, so hopefully I can talk about that here in a meaningful manner. Eighty percent (80%) of the costs are in personnel. I have to pick on some departments. Mr. Hunt is here. We can eliminate the Tax Department and do away with all of the appraisers if we went to a fixed cost at the purchase price, and then it goes up easy. We can do away with a lot of personnel, just in the Tax Office right there. I know that is not going to happen, but it would be a nice way to do it. Also, when you have been increasing the taxes in this department, the personnel has increased more than the revenue you bring in. It is sort of the like you are losing money. Also, I would like to talk about the Police Department, along with the Collective Bargaining. A lot of Counties and also mainland agencies have changed from a defined benefit plan into a purchase money pension plan. Instead of having a fixed cost at the end of the retirement, it is what they put into the retirement and the County also helps funding. This could be hundreds of millions of dollars into the future. Also, with the Police Department... with the Police Commission, they are getting these new body cameras that are being put on them. I thought that was an excellent idea. They are saying that there is an eighty percent (80%) reduction in claims. We spend millions of dollars a year in insurance liability for the Police Department. I am just thinking that with these cameras, maybe we can get a good police discount in the future if we have a good record for six (6) months. It is sort of like a snapshot you plug into your car, like a "good driving" for the Police Department. I know we have good police. Maybe we can save a little bit on our insurance that way. There are many other departments. We have the Liquor Commission. There was over one

hundred thousand dollars (\$100,000) in spending this year. There are a lot of departments. Another one— Engineering— they used a helicopter for six thousand dollars (\$6,000) and we have one that is actually through our Fire Department. We all work together here. Maybe there were conflicts, but maybe we could use that helicopter at times since we are paying for it no matter what, rather than outside rentals. This could be done throughout our departments of sharing equipment, and sharing personnel, where we would not have to duplicate it. You have already done this in personnel with what has been happening already. My three (3) minutes are up, but I would like to say that the Council said you wanted to lead by example. “December 1, 2014— the Council is going to get a three hundred fifty dollar (\$350) a month car allowance.” You might want to do a line item veto through that and show that you are really serious about cutting spending for the Council. Also, you need to actually sit down through this budget. Anyway, I have had my time. Thank you very much.

Committee Chair Chock: You have a question.

Mr. Pierce: Okay.

Council Chair Furfaro: I must stay clear about following the rules and if this Committee has that rule, I withdraw my request. Before we go forward, I would like to make a couple of comments about what was said.

Committee Chair Chock: Would anyone else like to speak at this time? If not, we will call the meeting back to order. Chair, I will give you the floor.

There being no one else to provide public comment, the meeting was called back to order, and proceeded as follows:

Council Chair Furfaro: What I was going to say was for his benefit, but he left the room. I just wanted to correct a couple of pieces. He asked a question about our debt service and I have that information for him. I will try and ask Eddie to track down Mr. Pierce and tell him that I would like to answer that question for him and give him a copy of the schedule. Saying that the County is close to bankruptcy is— clearly, we do have credit ratings that are double “A” with two (2) bond companies and one “A-” for another bond company. Mr. Pierce asked me about our debt service and I have the schedule for him and I will leave the meeting in a few minutes to get him a copy. We have always been very good about trying to respond, if not at the moment, at least over time to citizens’ questions on that. I do want to make note that the car allowances was not just the car allowance; it was also an allowance for the maintenance of your vehicles, as well as phone services and so forth as a reimbursement. We did cut it in 2010, but it is something to look at again. Mr. Pierce’s one comment about the helicopter equipment, I think, is a very good point because it is not a Fire Department helicopter; it is an emergency vehicle for all departments. That is something we should find out if we contracted services because the impression is that the piece of equipment is solely for the Fire Department. That is not the assumption we should make. If we had simultaneous rescues going on, it is certainly worth viewing. Those are my comments towards the public speaking time. I am going to step out and meet with Mr. Pierce outside. Thank you.

(Council Chair Furfaro is noted as excused at 9:44 a.m.)

Committee Chair Chock: Thank you, Chair. Mr. Clerk, at this time, could you read a description of this workshop.

COST REDUCTION WORKSHOP:

1. The Kaua'i County Council's Finance & Economic Development (Tourism / Visitor Industry / Small Business Development / Sports & Recreation Development / Other Economic Development Areas) Committee will hold a non-decision making, informational workshop to allow the Administration to present their plans, strategies, and challenges to reduce the cost of County government.

This Workshop will allow the public the opportunity to provide testimony, which may include suggestions or ideas on possible cost reduction measures, and for the Administration to be able to provide the public with information on the various "constraints" (i.e. Collective Bargaining Agreements, cost of maintaining basic services, etc.) under which the Administration must take into consideration when analyzing possible cost reduction measures.

Committee Chair Chock: Thank you. At this time, I would like to hand the floor over to Managing Director Nakamura and Mr. Hunt.

There being no objections, the rules were suspended.

NADINE K. NAKAMURA, Managing Director: Good morning. Nadine Nakamura, Managing Director.

STEVEN A. HUNT, Director of Finance: Steve Hunt, Director of Finance.

Ms. Nakamura: Congratulations to the three (3) of you for your recent election. Today, we wanted to thank you very much for this opportunity to have this dialogue about where we are, what some of the challenges ahead are, and what some of the cost-reduction measures are that have taken place and that we are also looking at in the future. Let us start off. Again, the specific requests that the Council made for today's workshop is to talk about our plans to reduce the cost of government and our strategies and challenges. The question is how much has the County grown? For the purposes of this workshop, we are looking at the timeframe between 2010 and 2014, where the operating funds actual expenditures in all fund categories increased by seventeen million dollars (\$17,000,000) of which the General Fund increase was about thirteen million dollars (\$13,000,000).

Mr. Hunt: One of the reasons we choose Fiscal Year 10 as the starting point, although the Mayor's term, I believe, began in Fiscal Year 09. There was a major change in the handling of the Other Post-Employment Benefits (OPEB) distribution. It used to be centralized within Finance, and then it was distributed to each of the departments in Fiscal Year 10. So for comparative purposes, if we are looked at changes at the department level, we wanted to have an even playing field, so Fiscal Year 10 was the year that was selected.

Councilmember Hooser: May we avoid acronyms a little bit for the public and even for myself on some of these things.

Mr. Hunt: Sure. "Other Post-Employment Benefits" is the OPEB acronym. In Fiscal Year 10, the Operating Fund expenditures— and these are purely operational, so it is going to exclude expenditures from Capital Improvement Projects (CIP) and grants, as well as our debt service, was approximately one hundred twenty-seven million four hundred thousand dollars (\$127,400,000) in Fiscal Year 10. It has increased to one hundred forty-four million eight hundred thousand dollars (\$144,800,000) by Fiscal Year 14. Again, that is a seventeen million four hundred thousand dollars (\$17,400,000) increase or about thirteen point six percent (13.6%). That is about a two point seven percent (2.7%) per year increase in operational expenditures.

Where has the government increased in the past four (4) years? Eighty-three percent (83%) of that increase is associated with five (5) departments, which comprises fourteen million dollars (\$14,000,000). That would be Police at about four million nine hundred thousand dollars (\$4,900,000); Fire at four million four hundred thousand dollars (\$4,400,000); Public Works at one million eight hundred thousand dollars (\$1,800,000); Transportation at one million eight hundred thousand dollars (\$1,800,000); and the Prosecutor's Office at one million six hundred thousand dollars (\$1,600,000). The asterisk on the Public Works... about one million dollars (\$1,000,000) of that one million eight hundred thousand dollars (\$1,800,000) was at the result of the road resurfacing being moved away from Capital Improvements. It was an audit finding and that is now in Repair and Maintenance (R&M) operational expense, so the one million dollars (\$1,000,000) of that one million eight hundred thousand dollars (\$1,800,000) is associated with moving that to an R&M.

Ms. Nakamura:

"Repair and Maintenance."

Mr. Hunt: Yes. This pie graph shows the percentage of this at seventeen million four hundred thousand dollars (\$17,400,000) by department. Again, the five (5) of departments that contributed most to the increase in operational expenditures are shown here: Police being about twenty-eight point one percent (28.1%); Fire at twenty-five point three percent (25.3%); Public Works at ten point four percent (10.4%); Transportation at ten point two percent (10.2%); and the Prosecuting Attorney's Office at nine point two percent (9.2%).

Between 2008 and 2011, firefighters received a five percent (5%) increase per year and police officers received about six percent (6%) per year as part of the Collective Bargaining that was ongoing. Meanwhile during that period, Hawai'i Government Employees Association (HGEA), United Public Workers (UPW), and exempt employees did not receive increases between July 2011 and June 2013. There were also furloughed for six (6) months. The health insurance employees' copayments increased from forty percent (40%) to fifty percent (50%). Between Fiscal Year 10 and Fiscal Year 12, property taxes declined about ten million eight hundred thousand dollars (\$10,800,000). If we look at the comparison year over year from Fiscal Year 10 to Fiscal Year 2011, the decrease was about six million eight hundred thousand dollars (\$6,800,000) and this is in total the General Fund. Between Fiscal Year 10 and Fiscal Year 12, it was about thirteen million one hundred thousand dollars (\$13,100,000). Between Fiscal Year 10 and Fiscal Year 13, it was twelve million one hundred thousand dollars (\$12,100,000), and then only in Fiscal Year 14 did we actually see an increase going up one million eight hundred thousand dollars (\$1,800,000) in comparison to Fiscal Year 10. It

was a long drought of moneys that were not received during those three (3) fiscal years in between.

Ms. Nakamura: On that chart, the Real Property Tax (RPT) portion is in teal. That is the portion that you can see going down Fiscal Year 11, Fiscal Year 12, Fiscal Year 13, and then back up only in Fiscal Year 14.

Mr. Hunt: So taxpayers paid less during the recession. Again, this was an administrative choice that was made to use Fund Balance, which was our "savings account," if you will, rather than continuing to raise taxes to augment the shortfall that we were having due to the decreased values. Many taxpayers during this period actually experienced decreased tax bills.

Transient Accommodations Tax revenues— Again, compounding this issue, there was a loss of about thirty million dollars (\$30,000,000) between Fiscal Year 12 and Fiscal Year 14. This is non-realized revenue due to the cap that was imposed. The State was also feeling the effects of the great recession and dealt with it by capping the Counties' share of the Transient Accommodations Tax revenues at ninety-three million dollars (\$93,000,000). If we were to get our uncapped amount, just to put it into perspective, the Counties instead of receiving ninety-three million dollars (\$93,000,000) would have received over one hundred seventy-seven million dollars (\$177,000,000) in Fiscal Year 14. The County of Kaua'i's portion of that, which would be fourteen point five percent (14.5%) of the Counties' shares would have been about twenty-five million seven hundred thousand dollars (\$25,700,000) as opposed to the thirteen million five hundred thousand dollars (\$13,500,000) that we received.

Ms. Nakamura: The question again is, "Where have we grown?" If we take a look between 2010 and 2013, one hundred three (103) new positions were created. At the top of the list is the Department of Transportation with seventeen (17) new employees; Council Services with eleven (11); Fire with eleven (11); Public Works with ten (10); and the Prosecuting's Office with nine (9). Council Services does not include the budgeted positions for the Office of the Auditor. The Fire Department increases tracked with the construction of the Kaiākea Fire Station. The initial four (4) year grant— they received a Staffing for Adequate Fire and Emergency Response (SAFER) grant for four (4) years. In Fiscal Year 2015, we are now using General funds to replace the fifteen (15) new positions created, which added two million one hundred thousand dollars (\$2,100,000) to our budget. That is for the twenty-four (24) hour coverage.

Mr. Hunt: Just noting that the five million seven hundred thousand dollars (\$5,700,000) is a capital investment from our Bond Fund. It is not an operational expense; it is just an investment.

Ms. Nakamura: Another major expense involved Community Development Block Grant (CDBG) and other grant funds that we received, which was the purchase the Fire helicopter that was referred to earlier. There was a capital cost involved; annual aircraft insurance and pilot maintenance fuel costs of about five hundred thousand dollars (\$500,000) each year.

Solid Waste was also increased with the Council Resolution No. 2011-73 that created a seventy percent (70%) waste diversion goal by 2023. Our Solid Waste Diversion budget in Fiscal Year 15 is just over three million dollars (\$3,000,000). That includes all of the items listed above: recyclable program, hazardous waste,

used motor oil, electronics, and so forth. It is a very aggressive program. You can see overtime from 2010 to 2014, the blue column is the expenditures and encumbered funds, and then the gray column next to it is the revised budget.

Mr. Hunt: You will notice the sharp spike you see between Fiscal Year 13 and Fiscal Year 14, which that is in response to the added green waste cost. The no-burn has created an additional cost of managing green waste because it is now ending up at our transfer stations. That alone, the green waste... that portion of the recycling has increased eight hundred thousand dollars (\$800,000) going from five hundred thousand dollars (\$500,000) to one million three hundred thousand dollars (\$1,300,000).

Ms. Nakamura: This is an example of a state law that directly impacts our County finances. The next item is the Kekaha Host Benefits Program where we have a facilitator, sixty thousand dollars (\$60,000) a year, that works with the community to identify priority projects and helps to administer that program. Over the years, we have set aside funds starting from Fiscal Year 2009 to the current Fiscal Year, so the total over all the years is one million four hundred thousand dollars (\$1,400,000).

(Council Chair Furfaro was noted as present.)

Mr. Hunt: Public Transportation: Council Resolution No. 2013-33, Draft 1 created a Multimodal Transportation Plan and the policy direction was to expand growth in transportation. In Fiscal Year 12, expanded routes and hours, including Sunday and three (3) additional hours in the evening, were added to the routes. This was at a cost of about one million two hundred thousand dollars (\$1,200,000). Also in Fiscal Year 12, they added three (3) morning routes to the Kapahi shuttle, which also increased the Operating Budget by about fifty thousand dollars (\$50,000). In Fiscal Year 13, we are now using County match funds of about four hundred thousand dollars (\$400,000) to purchase buses. Eighty percent (80%) is coming from federal funding, but our budget in prior years at its low had been about one hundred twenty-five thousand dollars (\$125,000) of our matched portion. The increased fleet is requiring us to have increased matching funds to keep our buses new and on a replacement cycle. In Fiscal Year 15 through the budget process, we did add three (3) additional holiday shifts and now I believe it is three hundred sixty-five (365) now, which costs another twenty-eight thousand dollars (\$28,000) to pick up those three (3) additional holiday shifts.

The Solid Waste Landfill Closure Fund: This is the County's financial assurance that we will deal with the closure of the Kekaha Landfill, as well as post-closure costs. The landfill itself was increased because of the height, the vertical expansion, so we re-priced the closure cost to cap that at today's cost for construction, which had not been updated in a while. We also included the estimated costs for a methane gas collection system as part of the landfill closure cost. That increased our financial assurance on an annual basis by about seven hundred fifty thousand dollars (\$750,000), going from three hundred sixty thousand dollars (\$360,000) annually to one million one hundred ten thousand dollars (\$1,110,000) annually.

The Endangered Seabird Compliance— Again, the County was placed on probation in Fiscal Year 11. Part of that was dealing with some of the retrofits in lighting, primarily with Capital Fund and state grant, but also some of our special

fund moneys from Parks, which is generated through environmental impact and park dedication fees when people come in for permits for large-scale developments. That was about three million five hundred thousand dollars (\$3,500,000) in retrofits to the ball fields. We also had a civil fine of fifteen thousand dollars (\$15,000) in Fiscal Year 11. As part of the settlement agreement, we paid the National Fish and Wildlife Foundation one hundred eighty thousand dollars (\$180,000) and thirty thousand dollars (\$30,000) to the Kaua'i Humane Society.

From Fiscal Year 10 through Fiscal Year 12, the Special Counsel expenditures were actually reduced significantly because the County Attorneys were doing some in-house litigation. In Fiscal Year 13, however, Special Counsel expenditures increased as the County Attorneys required recusals. Again, the County Attorneys cannot pick their cases and when recusals are required, they must seek Special Counsel. For Fiscal Year 14, the makeup of the expenditures for Special Counsel, if we are tying them to departments: the County Council represented about three hundred seventy-two thousand dollars (\$372,000) or about forty-two (42%). This had to do primarily with Ordinance No. 960, as well as some ongoing personnel matters that had to be handled through Special Counsel; Planning with their Transient Vacation Rental (TVR) and some of their contested case hearings contributed about another thirty-one percent (31%) or about two hundred seventy-seven thousand dollars (\$277,000); Police had about fifteen percent (15%), one hundred thirty-one thousand dollars (\$131,000); and then Public Works had about sixty-one thousand dollars (\$61,000) over the primary users of the Special Counsel funds.

Another significant budgetary change that happened in Fiscal Year 12 was when the Council passed Ordinance No. 936, which increased the percentage of Real Property Taxes that would be allocated to the Open Space Fund from half percent (0.5%) to one and half percent (1.5%). So that went from approximately five hundred thousand dollars (\$500,000) annually contributed to that Open Space Fund to about one million five hundred thousand dollars (\$1,500,000) annually. It was about a one million dollar (\$1,000,000) increase.

Ms. Nakamura: We also wanted to talk about three (3) Charter Amendments that have impacted our budget over the years. Starting off, in 2006 when the Charter question was posed by the Charter Review Commission about the creation of a separate Department of Parks and Recreation. Sixty-six percent (66%) of the voters approved this measure and a new Department of Parks and Recreation was created. Many of the positions transferred from Public Works and Office of Community Assistance to this new department, but six (6) new positions were created in the process. In 2006, a second charter amendment proposed by the Charter Review Commission was whether we should create a separate Boards and Commissions Administrator? Fifty-seven percent (57%) of the voters approved this measure and barely squeaked by, which the Office of Boards and Commissions was created in 2007 with six (6) new positions. There are over one hundred sixty (160) volunteers who serve on the Boards and Commissions. We create the agendas, minutes, and help to facilitate those meetings. The budget in Fiscal Year 15 was eight hundred seventy-seven thousand dollars (\$877,000), which includes the Granicus contract of one hundred fifty thousand dollars (\$150,000). The third major Charter question in 2008, which was proposed by the County Council, was whether we should create an Office of the County Auditor. Seventy-nine percent (79%) of the voters approved this measure and the Office of the County Auditor was implemented in 2009 with five (5) new positions. The Fiscal Year 15 Budget was one million dollars (\$1,000,000) and it includes the two

hundred twenty-five thousand dollars (\$225,000) that was transferred from Council Services to conduct the Comprehensive Annual Financial Report (CAFR).

Mr. Hunt: "Where have we cut costs?"

Council Chair Furfaro: May I just clarify something? You just confused me because the two hundred fifty thousand dollars (\$250,000) was always in the budget.

Ms. Nakamura: That is right.

Council Chair Furfaro: Whether it was in the Council budget or the Auditor's budget, you move one dollar (\$1) to one dollar (\$1), it did not change the budget. I just wanted to clarify that.

Ms. Nakamura: That is correct.

Council Chair Furfaro: I also want to make sure we understand that when we are talking in terms of moneys, you are actually referring to the past tense "actuals" versus what was budgeted at the time. For example, in Council Services, for almost eight (8) years, we budgeted for five (5) positions that we never filled. It is not budget to budget; it is now because we tightened the belts, we did not spend it. But now you are saying what is in the budget is actually higher. We got to a point where we could not squeeze the waistline any further. I just wanted to make sure because the public may not understand that moving money is not a new expense. It is just going from one department to another.

Ms. Nakamura: That is right.

Council Chair Furfaro: Thank you very much.

Mr. Hunt: So where have we cut costs? First was the furlough that saved approximately one million five hundred thousand dollars (\$1,500,000). This impacted the HGEA, UPW, and appointed officials. It was from July through December of 2010. The savings included salary and fringe, including a reduction in the County employer's portion of the medical premiums. Also, Executive Pay Freezes since 2008 saved up to one million four hundred thousand dollars (\$1,400,000). The Administration rejected the Salary Commission's 2009 and 2012 recommendations for increased pay with the exceptions of the Prosecutor's Office, County Clerk's Office, County Council, and the County Auditor in 2009, as well as the Police Chief and Deputy Police Chief in 2012 and the Fire Chief and Deputy Fire Chief in 2012. All of the other executive salaries have been held at 2008 levels. Approximately one hundred sixty-eight thousand dollars (\$168,000) savings from freezing the Mayoral Appointee raises. Again, this is for Fiscal Year 15. There were retroactive raises for HGEA and UPW corresponding with their step movements, as well as negotiated, but the appointees did not receive those benefits. They were held at their current levels.

One of the big savings that is an average of about four hundred twenty-five thousand dollars (\$425,000) per year had to do with refinancing our bonds at a key point in time when interest rates were very low. We refinanced our 2001 bond, which saved approximately two hundred seventy thousand dollars (\$270,000) per year and that will extend from 2011 through 2026 or fifteen (15) years. Our 2005 bond refinance saves us approximately one hundred fifty-five thousand dollars

(\$155,000) per year and that is a little longer from 2011 to 2030 or nineteen (19) years. The cumulative savings is almost seven million dollars (\$7,000,000) from that refinance. I know Chair Furfaro was part of that committee that went on that bond refinance trip, so we appreciate your work to get us those good rates.

The reduction in Solid Waste overtime— these are just points in time, but between Fiscal Year 09 and Fiscal Year 13, we brought down the overtime for this department or this division in Solid Waste by six hundred fifty-one thousand dollars (\$651,000) going from eight hundred fifty thousand dollars (\$850,000) in overtime to one hundred ninety-nine thousand dollars (\$199,000) in overtime. Again, part of that had to do with the change of schedule, where we were working four (4) ten (10) hour days to five (5) eight (8) hour days, as well as automated pickup, which requires fewer workers per route.

In Fiscal Year 15, a budget cut that was made by Council here had to do with travel reduction, approximately one hundred thirteen thousand dollars (\$113,000) in travel cuts. This was a recommendation by Councilmember Ross Kagawa and it was effectuated for the Fiscal Year 15 Budget.

About six hundred thousand dollars (\$600,000) reduction in vacation payouts— this is both a budgetary and actual savings. It is a budgetary savings because we have cut the budget allowances for every department, so that they do not have vacation payout line items. What that means in real terms is in order to rehire, you need to be able to fund the vacation payout from your department, from the incumbent who is leaving, their salary and fringe. So it delays the rehire process, so that you are not paying out both the vacation payout and salary and fringe during that interim period. This also ties into the Vacancy Review Committee that reviews and vets— we will be talking about this later, but vets the process of reengineering, reorganizing, or re-describing those positions to be more effective.

Ms. Nakamura: So what are some of the options to reduce costs? Again, as the Mayor said earlier, we are looking at all options. One of the options that people wanted to look at is to eliminate non-chartered departments and agencies. By looking at the net operating expenses, Transportation, Economic Development, Housing, and Elderly Affairs totals eleven million four hundred thousand dollars (\$11,400,000), of which eight million four hundred thousand dollars (\$8,400,000) is from the General Fund.

Mr. Hunt: It should be noted that these departments also receive a lot of grant moneys that come into the County, so we are distributing moneys, but these are the actual costs and expenditures to the County to keep them operational.

Ms. Nakamura: Eliminating transportation services would mean that we would lose out the one million dollars (\$1,000,000) in annual revenues created by bus fares and federal grants of two million six hundred thousand dollars (\$2,600,000) to two million eight hundred thousand dollars (\$2,800,000) a year in operating vehicle replacement planning and facility funds. We should be aware that fixed routes serve approximately one thousand (1,000) visitors and residents per day and paratransit serves approximately one thousand one hundred (1,100) individuals per year. Economic Development also brings in a lot of outside grants: Hawai'i Tourism Authority (HTA) grant of four hundred fifty thousand dollars (\$450,000), which on average is granted to twenty-five (25) to

thirty (30) festivals and events serving over one hundred nineteen thousand (119,000) residents and visitors each year. It also leverages one million dollars (\$1,000,000) of cash matches and one million dollars (\$1,000,000) million in in-kind matches from various nonprofit organizations. The Workforce Investment Act (WIA) also generates four hundred thirty-four thousand dollars (\$434,000) in revenues on average. It serves two hundred (200) to three hundred (300) residents in funds and/or services for education and/or training each year. Housing also generates with the six hundred seventy-five thousand dollars (\$675,000) in general funds. It leverages almost two million dollars (\$2,000,000) in federal funds, although that amount is declining. Also, it generates program funds in thirteen million six hundred thousand dollars (\$13,600,000) CDBG homes, Section 8, Kālepa/Pa'anau in new fees. As you can see from the list, there are quite a few residents who benefit: six hundred (600) vouchers of Section 8 rental assistance and two hundred seventy-two (72) affordable rental units on County owned properties. There are a lot of new projects coming on the line, including projects at Kolopua and Rice Camp; one hundred four (104) units there and fifty-six (56) single-family homes at the Habitat 'Ele'ele Iluna Project. Elderly Affairs receives a lot of outside grants: one million five hundred thousand dollars (\$1,500,000) in state and federal grants in this Fiscal Year. They serve about two thousand six hundred (2,600) elderly each year. With the growing elderly population, there will be an increased demand in services.

The other option is if we have to come up with eight million two hundred thousand dollars (\$8,200,000) in budget cuts, is to spread it across all departments, agencies, and offices in proportion to the total budget.

Other cost savings measures is to do a hiring freeze. As of September 2014, there are eighty-three (83) fully and partially funded vacancies that do not include the Department of Water's vacancies. The positions, if you add them all up, would equate to four million seven hundred thousand dollars (\$4,700,000) in salary and fringe benefit savings.

Another "less blunt" approach would be to do... we have started... we have initiated the creation of a Vacancy Review Committee, so that anytime there is a vacancy within the County, it would not automatically be assumed that that position will be filled. We have started working with our department heads to clarify the role of each of the positions, whether the position needs to be continued, how it might be re-described to create efficiencies, and whether we can change the organization to get the job done in a different way. The whole idea is to reduce the size of government where it is appropriate and to serve as a sounding board to department heads to explore organizational personnel and technological alternatives.

Another area that we are pursuing is the creation of supervisory training and leadership development within the County of Kaua'i to train line supervisors, our branch heads, division heads, and department heads on personnel management, so that we can address employee concerns early on in the process to mitigate our risks, reduce claims, grievances, and the need for legal counsel. We see this as a proactive approach to make sure that we are doing everything that we can to address problems early on. Another major initiative is the human resources information system to take the manual system currently in place and to centralize our personnel data that includes payroll, time and attendance, benefits, retirements, vacation, and sick leave. We would like to set up a system, so employees can input this data online and have access to information that is useful to them, as well as departments

having the ability to access this data, create useful reports, and to address the ongoing audit finding that we need to fix this system.

Mr. Hunt: Another area that we are looking at is continuing some of our paperless initiatives. We have online procurement, but it is not fully digital yet. We are continuing to work in that area. For our job applications and hiring, we are using NEOGOV, which is an online application. We are moving towards electronic contracts, as well as moving towards digital signatures. Not every document requires a wet signature nor a notary, so we are looking at trying to streamline those documents that can be done digitally. Also, trying to move towards an electronic payroll stub. There are currently still about one hundred sixty (160) employees that are getting checks issued for every pay period. We are looking to trying to convert those last ones into direct deposits and payroll stubs, rather than printing on the perforated, expensive paper and sending everyone a payroll stub that would normally just get filed away in shoeboxes, that we would actually make those online digital and people would be able to research and pull them up without having to print these. We are also continuing our expansion of the e-PLANREVIEW, getting architects and engineers more proficient at using the submittal process, and again, cutting down on some of the paper requirements of filing with all of the County agencies.

Another initiative that we are looking at, and this is more of an investment than a cost savings, but Esri Canada, which will likely be a sole source provider has a tool called "assessment analyst." It essentially takes the overlays of our existing floor plan on camera records and puts them onto the Geographic Information System (GIS) maps with georeference locations, and from those maps, we can discern which areas are deficient where we have variances in building area or completely omitted properties. In historical rollouts, this is generated between five (5) to nine (9) times the return on investment. We are looking at a total investment of about three hundred thousand dollars (\$300,000), and it would probably pick up in terms of efficiency the equivalent of about two (2) to three (3) appraisers in terms of fieldwork and their productivity. It will be a way to expand and actually capture more of our missing database for real property assessments, which would give us an annualized return in perpetuity once we have those in the database.

Another initiative that is actually rolling out this year, Fiscal Year 15, is the pilot for the motor pool. We are going to be taking about twelve (12) vehicles out of service. These will likely be auctioned off at the next auction that we have. This reduces our capital, maintenance, and insurance of about over four thousand five hundred dollars (\$4,500) a year or an annual savings of about fifty-five thousand dollars (\$55,000). If this pilot is successful, we hope to roll this out to the greater fleet. Certainly, finding a centralized location for each of those areas, as well as making sure the appropriate funds, if they are being used by highway funds that only highway funds have access, we have some issues to work out, but we believe that the program itself will reduce the number of vehicles and create greater efficiencies and usage of the vehicles that we have, so that we do not have as many sitting in our parking lot.

Another initiative that is ongoing is our Energy Efficiency Plan. Again, I have listed a few projects here that will cut reduction in terms of kilowatt uses for the County. The biggest potential savings is going to be coming from our light-emitting diode (LED) streetlight project, which could cut our electricity bill by about five hundred thousand dollars (\$500,000) a year annually.

Ms. Nakamura: Our salaries and employee benefits reflect sixty-six percent (66%) of the County's Operating Budget. One of our additional strategies is to work with the State of Hawai'i and other Counties to develop our strategies to address the labor negotiation process, and to strengthen the employer's bargaining position.

Another very exciting area that we are working on is in the area of reimbursements. The Elderly Affairs are getting some of the cutting-edge information as we speak on how to seek reimbursements from Medicare, private insurance, and the Veterans Administration for some of the services that they already provide like diabetes workshop, intake assessment, and individual care planning. These are potentially reimbursable to the County and we are planning to pursue this.

Some of the challenges ahead that I wanted to talk about are some of the committed increases for UPW, Fire, Police, and HGEA Unit 13. In Fiscal Year 16, this will mean four million nine hundred thousand dollars (\$4,900,000) to the budget. In Fiscal Year 17, six million four hundred thousand dollars (\$6,400,000). We are now in negotiations with HGEA Units 2, 3, 4, and 14. In Fiscal Year 16, these are just ballpark figures for now, but three million nine hundred seventy thousand dollars (\$3,970,000) and two million four hundred thousand dollars (\$2,400,000) in Fiscal Year 17.

Council Chair Furfaro: I have a clarification. When you say "we are now," what you really mean is the "State is now" because we only have one (1) vote out of the nine (9). It is not "we" negotiating a separate piece, but that we are at the table with eight (8) other votes.

Ms. Nakamura: That is correct.

Council Chair Furfaro: Okay.

Ms. Nakamura: Many people say, "Why do we not operate like the private sector," but there are many restrictions that prevent us from operating like the private sector. One is the Hawai'i State Supreme Court Konno Decision, which does not allow County government in the State to outsource services that are historically and customarily done by public workers. Another challenge is that federal grants are disappearing. The Housing Agency Section 8 allowance for administrative costs has decreased over the years and we are going to need to pick this up in our General Fund in Fiscal Year 16 if we want to maintain the six million dollars (\$6,000,000) plus dollars in Section 8 funding on Kaua'i. Also, the Police Department Community Oriented Policing Services (COPS) grant—when we are able to fill those positions, it is a one-time grant and overtime, the General Fund percentage that we contribute to that will increase.

Mr. Hunt: Another challenge is our Fund Balance and Reserve. When we began in Fiscal Year 15, we had an Unassigned Fund Balance of four million nine hundred thousand dollars (\$4,900,000). We also had a Committed Reserve Balance of three million six hundred thousand dollars (\$3,600,000), but we have just passed legislation here to reduce the Unassigned Fund Balance by about one million nine hundred thousand dollars (\$1,900,000) to provide Real Property Tax relief. We are also looking at submitting a request to fully fund the OPEB obligation for Fiscal Year 15, which would be about one million five hundred thousand dollars (\$1,500,000). That would likely occur at the time that the Fiscal

Year 14 CAFR is complete and we have lapsed funds that we know will be there available. As you know or may not be aware that Government Accounting Standards Board (GASB) passed GASB 68, which now requires all government reporting agencies to post what their unfunded liabilities are. About one hundred forty-nine million dollars (\$149,000,000) unpaid liability for health benefits will be posted on our CAFR in Fiscal Year 15, so we would like to keep pace. The County of Kaua'i has been in the lead on that comparatively to the other Counties, and that has been at a cost to us at over seven million dollars (\$7,000,000) a year to keep on pace with our annual retirement contribution, the arc payment. Meanwhile, we are also trying to build reserves and best practices from the Government Finance Officers Association recommends that we have at least two (2) months of Operating Budget, which would translate approximately eighteen million dollars (\$18,000,000) to twenty million dollars (\$20,000,000) as collective reserves.

Again, as stated earlier, the Other Post-Employment Benefits underfunded the benefits. We are currently, as of Fiscal Year 14, approximately twenty-two percent (22%) paid for that full obligation. In Fiscal Year 15, we are hoping to make up that unfunded amount that went into our Reserve Fund of about one million five hundred thousand dollars (\$1,500,000).

Transient Accommodations Tax, Act 174, which was just passed this last Legislative Session, established a working committee to recommend an equitable distribution of TAT. I am actually one (1) of the members serving on that committee. We met yesterday and I have some good news that I will report to the Chair offline. I think we are moving in the right direction on that. It would be a long process and we do not anticipate having anything resolved for Fiscal Year 16. At the earliest, we are talking Fiscal Year 17 at having a revised percentage distribution for the Counties.

We have comparatively low tax rates. Again, I am showing all categories, but primarily the Industrial, Commercial, Homestead, and Conservation are areas where we trail the State on average, so these are tax rates that make it challenging for us to continue to generate revenues.

Ms. Nakamura: Some of the additional challenges ahead that we wanted to discuss includes the construction of a materials recycling facility. The site selection and conceptual design permitting is ongoing. We anticipate the need in Fiscal Year 17 for four million dollars (\$4,000,000) to five million dollars (\$5,000,000) in construction funds that would include General Fund and Alternative Minimum Tax (AMT) Bond.

Mr. Hunt: "Alternative Minimum Tax" Bond is the acronym.

Ms. Nakamura: The Kekaha Landfill Cell 2— It is anticipated that we will also need a AMT Bond in Fiscal Year 17 in the range of twelve million dollars (\$12,000,000) to fourteen million dollars (\$14,000,000). Finally, for the Maalo Landfill and Resource Recovery Park, we will need final design funds for Fiscal Year 18 in the amount of six million dollars (\$6,000,000), and then construction in the year 2020 between seventy-nine million dollars (\$79,000,000) to eighty-eight million dollars (\$88,000,000). There is a breakdown for the landfill portion of forty-one million dollars (\$41,000,000), the Resource Recovery Park portion, and then the roadway portion. As you are aware, because of the three (3) major Solid Waste initiatives that I just outlined, there is a Request

For Information (RFI) to contractors to look at potential solid waste solutions for Kaua'i. We expect to have responses back sometime in mid-January. I believe that will help to guide the next step in this process.

We also wanted to talk about deferred maintenances being a challenge because while we are reducing costs in our Repair & Maintenance budget by about seven hundred thousand dollars (\$700,000), it is affecting our ability to keep up with the needed repairs in our facilities, including our parks, offices, and recreational facilities. A major component of the Repair & Maintenance budget is because of vandalism within our County parks and facilities. Just anecdotally, we are hearing that over fifty percent (50%) of the maintenance work is vandalism-related and it increases during the summer months. While at the same time, we have fiscal challenges. On the other side, we have citizens who would like to see additional services and improvements to County facilities and programs. At our recent farm fair, we conducted a citizen survey with two hundred ninety-one (291) people responding. It gives us a snapshot of what people are saying they would like to see funds spent on and you can see that roads and maintenance is at the top of the list and education at thirteen (13%). That is primarily a State function, but people do not make that differentiation. Parks and maintenance is at nine percent (9%), housing at seven percent (7%), and transportation/bus at seven percent (7%). It is just another side of the picture.

As we reduce our costs, we need to be aware that it will affect our County services and just need to be upfront about... we cannot make costs without impacting our service delivery. In closing, we are all aware of the Charter requirement that we approve a balanced budget, that there are many challenges ahead, but there are also opportunities to address our needs within the community and to try to make government more efficient. But hard choices are going to have to be made and it will affect the level of services that we currently offer. We look forward to having this discussion with the Council. This is a good start of that discussion and I am sure we are going to have a lot more with the upcoming budget. We are open to any questions that you may have.

Committee Chair Chock: Thank you very much. I know that Chair Furfaro has to leave, so I wanted to get right into those questions, if possible. Chair, I will hand the floor over to you.

Council Chair Furfaro: Thank you very much. It was a very nice presentation. I would like to say that there are a couple of things that become very obvious to me that we need to do jointly. One of the examples that I want to give you is that as I walked the gentleman out to answer his question about the helicopter, I reminded him that that grants we got basically talks in terms of emergency services. Therefore, we can say that we can piggyback on Police when they have an emergency to use the facility, but we cannot necessarily piggyback on Public Works when they are doing a project. So make very clear what we can and cannot do. That brought me to about four (4) years ago when speaking to the Civil Service Commission, Human Resources (HR) Committee, Cost Control Committee—I think if you go and check the records you will note that I have made a number of presentations about how we need to do these things jointly. I am going sell you some goods here because I only have about twenty (20) days to sell. It starts here. This is a great book about County leadership and I made this presentation to two (2) of those three (3) committees that I mentioned. It really talks in terms of what our leaders and department heads should really focus on in their departments as it relates to cost control. "Staffing" as it is referred to as "right-sizing." Not layoffs,

cuts, or such; it talks about right-sizing. I pride myself on this, even though I had a couple of Councilmembers that remind people about their leadership role, I am going to take a moment to say that I work very closely with the Aspen Institute when we founded Leadership Kaua'i. I am very proud of the fact that even our Mayor was a graduate of that program. This is available through the National Association of Counties (NACo) and some of the areas that I talked about in the past... the ethics required of managers, especially as it deals with promotions and giving reviews on personnel. Linking management to risk management to cut down on potential lawsuits and moving forward with technology. These are all very critical. This book is available through the National Association of Counties. I almost think that it is a good enough investment to have department heads grasp the idea of what their expectation is as leaders of that department head. I am going to give this to Mr. Chock. I also want to say that there were a couple of contents from that book that we applied at the Council and I think you are aware of this where how we actually prepare a review of our personnel, so that people know if they are not performing. I even had them do it on me. Also, we have identified our continuity of when people leave us. For example, when Nancy retired, "How are we going to handle HR there when we have bigger demands on public information?" We actually have one (1) of our Analysts now doing a draft that sends it over to your office, so that we can communicate the right message. We have it laid out in a review performance and continuity plan. I think you are on the right track with this new HR Department and we first have to ask ourselves, "Is a hiring freeze the right answer or have we looked at right-sizing first?" I will give you an example. I can only identify five (5) of the eleven (11) positions you put on the board there for the Council, but I also wanted to make a note that there were at least those five (5) positions that were in the budget every year, but were never filled. One of those results as I went and said, "Okay, let us audit the department." I have been Chair six (6) years now and I am asking, "Why do we have this position? What is that position for?" One of the Clerical positions was the Records section to really transcribe, file, and scan our records, only to find out that we were eight (8) years behind. Therefore, we have a third person in Records now, so that we can be really current. The focus is to get everything that we do now current within a ten (10) day period, and then go back, redo, and re-listen to the ones that we still have to transcribe. I caution you on just talking in terms of a hiring freeze.

Ms. Nakamura: We would be happy to also revisit the numbers if it is not consistent with your numbers, just to make sure that we are using a valid...

Council Chair Furfaro: I would appreciate that. I think Ricky and Jade would require that courtesy of you, so if you could identify that.

Ms. Nakamura: I think that came straight from the CAFR, so we will identify the source of that information.

Council Chair Furfaro: Okay. Also, we added a second staff attorney for the Council, one (1) Secretarial Assistant because the request that we get from Councilmembers, and they need to be aware of this that we went up almost one thousand (1,000) requests for work in one (1) year. When I first got onboard, we were doing about three thousand nine hundred (3,900) a year. Two (2) years ago, we were at six thousand three hundred (6,300) requests.

Ms. Nakamura: Did it go down after I left?

Council Chair Furfaro: No, but I will not tell you how much it jumped the year you were here. This is important for this group to know, but we are tracking seven thousand two hundred fifty-four (7,254) requests. We added an Analyst. If not, we could not meet the deadlines of the request. I hope our Clerical section can keep up with it, so we do not fall behind again because of a hiring freeze. I do want to pass this out to you folks. These are the numbers that deal with how much money we lost on the TAT, but the number I did not hear from you was the fact that the public does not realize when we have the cap in place, the cap saved them seventy one million dollars (\$71,000,000) over the years. The cap, by lifting it, helped us on our bond rating, but did not help the citizens in understanding why no cap. As Steve pointed out, I was part of that team that was in San Francisco for that. There are a couple things here that we need to also focus on, dealing with the... how do I want to say this? I used the term "right-sizing," but when we right-size, we also have to understand how far we can go in participating on projects that are really the other political subdivisions and how much the State's responsibility is. For example, we had a crisis about meals in the schools and people who were not getting fed because of the reconciliation. Someone said, "Well, if they are short money, we will fund it." But wait a minute, that is the Department of Education's issue. We can bring it to their attention, but we cannot draw money for that. We also find ourselves in a situation where, and I think Mr. Hooser will probably take my message to the State, but another year on writing and saying, "You need to fill the five hundred forty thousand dollars (\$540,000) worth of Agricultural Inspectors that are supposed to be managing with what is happening with herbicides and pesticides. We have to send that again. We have to be very sure. It is tough even in the early educational pieces, but that is not responsibility in our political subdivision. The values that we often talk about, and Mr. Chock reminds us of, is the value of *kōkua*. Yes, we want to help, but there is a cost associated with that. We have to be very, very careful. The other discussion comes up as this privatization and so forth. The City and County of Honolulu has one million two hundred thousand (1,200,000) residents as a tax base. We have sixty-eight thousand (68,000). If we cannot privatize, we need to have a joint strategy to say, "Small Counties may need to have a separate bargaining unit agreement than the big Counties." If you are an "A Class" hotel carrying four (4) of five (5) diamonds or a mobile award carrying five (5) or six (6) stars, you have a Class "A" Contract because the expectations and service are so much more. If you have a mobile four (4) or three (3) star or a three (3) diamond rating, then you are in a Class "B" Contract. Dialogue has to stay alive because we cannot keep being competitive with contracts that we only have one (1) vote on. What did you say the amount was going to be, Steve?

Mr. Hunt: We actually have one (1) that is in negotiations, so we have an ask price, but we do not have the actual amount. I believe the ask was three million seven hundred thousand dollars (\$3,700,000) or four million seven hundred thousand dollars (\$4,700,000) for Fiscal Year 16.

Council Chair Furfaro: Page thirty-three (33).

Mr. Hunt: Thank you. So, four million nine hundred thousand dollars (\$4,900,000) in contracts that are already agreed upon, and then another three million nine hundred seventy thousand dollars (\$3,970,000) in their ask for the ones that are two (2) year agreements.

Council Chair Furfaro: I am not saying that I have the answer to that, but what I am saying is that we have to be at the table expressing that with a County of sixty-eight thousand (68,000) residents, we cannot keep up with this. It is very important for us to know that message has to be about right-sizing. Then of course, our challenges, and there are many—we have opportunities here that you mention, Nadine, about pursuing more grants and federal moneys. Those are opportunities. On the other side of the spectrum, we have the threats. You came from the first TAT meeting and I shared with them at the Council Meeting yesterday that the next two (2) years has already been cast for us. We need to have a strong position and we need to make sure it gets changed, but it is cast in the dye. It is very, very important that we see what tasks we can merge with overlap and so forth, rather than getting so specialized that a new position can only do this. Those are some of the conversations that have to be at the table. Steve, I am going to say this as respectfully as I can, but we have to be at the table. We cannot leave this to an outside arbitrator to not carry our story. We have to be at the table. I would like to say that the challenges are many, but there are opportunities and we need to stay focused. We cannot go with three (3) different messages from four (4) different Counties about needs. I think people quickly forgot that in having the cap and not adjusting, we used our fund balances, and you mentioned that in your presentation. Also, the same thing happens, which is five (5) of the positions that were filled at the Council had actually been in the budget for almost fourteen (14) years. We filled those for the reasons I mentioned earlier like getting current on our recordkeeping and being able to turn around Councilmembers' requests in a reasonable amount of time. The task is big, but we have to get to the right size. We have to pay attention to the main thing for the County and not try to reach out to other political subdivisions. It is like in the hospitality business: hospitality is the main business. Keeping your people well-trained and well-informed is extremely important and I think you are on the right way with some of the training that you have lined up. But please, take a look. That was about four (4) years ago when I shared that with some of these commissions. That is a tool that NACo has resources for. They can help get us people. They give you a good conceptual overview. I would like to continue to help wherever I can. Steve and the Councilmembers, the piece that I passed out kind of recaps what has happened with the TAT and how much money was given back with the caps. I think we are all in the same ballpark, and again, I have to praise Scott and the Staff because they stay right on top of it. Another thing that is really big on benefits side is that we initiated here that if you do not use your vacation process and you meet your cap, you are done; you lose it; it is gone; *aloha*. That is a good word to end my conversation on. I said my thing. Thank you.

Committee Chair Chock: Thank you, Chair. I want to hand it to Councilmember Yukimura. She also has to leave, so I think we have to end if she leaves, so we need to get through this as quick as we can.

Councilmember Yukimura: I do actually have an important Boys and Girls Club meeting at 11:30 a.m., but this is my first priority and if my presence or lack of it is going to stop this meeting in an untimely way, I will stay on.

Committee Chair Chock: Thank you.

Councilmember Yukimura: Chair, thank you for sharing your thoughts. Nadine and Steve, thank you for an excellent presentation. I really hope that the other Councilmembers, as well as the public, and especially the critics of this Council and the Administration's both tax policies and government policies, will be

using this presentation to really inform themselves because this is very important information. I guess my first question, and it actually piggybacks on the Chair's instruction that we pay attention to the main thing; I am glad that there is fiscal planning going on, but I do not see it tied to a subject-matter strategic plan like an overall strategic plan for the County. I really appreciate, although it makes me shudder, your first option of removing non-chartered departments and agencies. I appreciate it because it makes us think about what these departments like Transportation, Economic Development, Housing, and Elderly Affairs are doing. When you think about their work, to me, they house many of our initiatives for the present and future. In my mind, they are like core functions of the County and to think of eliminating them is ridiculous. Then you look at your County fair citizen survey results: Housing and Transportation are in the top four (4) County desires from the public. You have roads and maintenance and education is State. So, roads and maintenance, park maintenance, housing, and transportation— these are what our citizens are saying they need and want, and we are saying that we would eliminate those core functions— my terminology: "It is mindless." That is why I pushed so hard against— the Chair really articulated it well that it is not about down-sizing, but it is about right-sizing. I do not think it is about cutting government or making government smaller. I think it is about cutting waste and inefficiencies. I do not believe that will lead to less government costs because we are not paying attention to so many existing needs. I think we need to go into preventative maintenance more, whether it is roads, parks, or County facilities. It is also about applying it to key initiatives that are so being neglected, and by neglecting them, we are not preparing for the future. I say that Transportation is one of them, and Housing is both present and future. We are so behind in providing affordable housing.

So with that being said, my question is, "Where is our strategic plan, which should guide our budget and fiscal plan?" I know that it will not be just an administrative function because the Mayor is not here, but I want to really acknowledge him for creating such a great team in the Administration because prior mayors have not done that; secondly, recognizing the Council as part of the team. I see the strategic plan as being built both by the Administration and the Council, which I think is missing. I think that is why we have a hard time doing our budget. Do you have any answer to that?

(Council Chair Furfaro was noted as excused.)

Ms. Nakamura: I think every department has operating plans. I think that is what you see when we have our annual budget presentations when every department talks about their strengths, weaknesses, things that they are proud of accomplishing over the year, and their goals and objectives for the new year. It is really the basis for each individual department's plan and budget. That is what you are looking at. That is what they are presenting to you every year. What we do not have is the consolidation of all of those individual department plans into a County plan. We have a General Plan that is a land-use focused plan that might be broader maybe in this next go around, but it is more of a land-based plan. For the County's strategic plan, that is dialogue that I think should occur at the policy level, and I think maybe with the new Council, we can initiate a dialogue about how we go about doing that.

Councilmember Yukimura: Thank you. We have been on a lot of Councils and there have been a couple of Councils and I think Nadine has been part of our efforts to do goals and objectives for the Council for the two (2) year term.

That is when we say top priorities are Housing, Transportation, or even when we look at our budget for the Police Department. This is related to the symptoms where the police have to deal with whether it is vandalism, theft, or burglary crimes and you look at what Kaua'i Planning and Action Alliance (KPAA) and Keiki to Career are trying to talk about root causes, which is drug use and juvenile delinquency. Look at the vandalism that our parks are experiencing. Are there ways where we redirect moneys like we tried to do with the preschool and afterschool programs? I was looking at Boys and Girls statistics and most of the juvenile crimes are committed during right afternoon to early evening. When we do things in silos of departments, we are not looking at this consolidation to look at overall solutions and root causes, so I think that is really missing.

Ms. Nakamura: It is a paradigm shift that we would need to take a look at and have a conversation about, and maybe that is something on the agenda with the new Council.

Councilmember Yukimura: Okay. Lastly, the Office of Hawaiian Affairs (OHA) has done that. They have done strategic planning, and then they have tied their budget to their goals. It is quite extraordinary and exciting, so it might be something that we could do. I have a couple more questions.

Committee Chair Chock: I just have a follow-up, if can I?

Councilmember Yukimura: Sure.

Committee Chair Chock: I think that is a great conversation, the way I am looking at it, so I think you are right that as we move into the new Council, we can take a look at how we can do that. We are talking about cost savings and really for us to be a part of that process as well, which as I see it, the General Plan help to guide that strategic plan that will, in turn, move us in the direction of each department's budget.

Ms. Nakamura: I just want to let you know that the Fire Department is in the process of doing their strategic plan. The Police Department is looking at trying to do something this fiscal year. Individual departments are looking at the need and carrying that out, but it does require a commitment of resources in order to do it well. That is something to also keep in mind as we think about a countywide strategic plan.

Councilmember Yukimura: I have a lot more questions, but I want Councilmember Hooser and us all to have more to participate. Actually, it is something that Councilmember Hooser has already raised; the idea of multiyear budgeting. I think you are already moving in that direction, but perhaps you could explain to us what you are thinking.

Mr. Hunt: Sure. We are actually moving on that as we speak. We have a contract proposal with terms and conditions that I am reviewing now for the first interim portion, which is really analyzing where we are today and coming up with a needs assessment. Probably in Fiscal Year 17 would be the actual movement towards a multiyear budget and a long-term strategic plan. Again, a lot of what you are talking about on the strategic plan as countywide will obviously impact that, so I think timing might work well to have that plan in conjunction with the financial plan to give resources to that. For Fiscal Year 16, we are looking to include at the department level, the impact of grants because you do not see that

now like the positions and funding that comes into the County; all you are seeing is the line item operational budget, so we are trying to be more transparent and show the whole picture as to what the County is spending, as well as receiving in grants. We are also looking at providing potentially projections for two (2) additional years, so it would be current year, Fiscal Year 16 requested budget, as well as the anticipated Fiscal Year 17 and Fiscal Year 18 with information that we have at hand. We obviously cannot be held to it. We are not looking at biannual budgets, but we are looking at just informing you as to where the trend line is. If we know collective bargaining goes out for two (2) more years, let us budget for that. This is what we anticipate these same positions will be costing us in the next two (2) years, so we will know what the resources needed to fund those will be. Again, a lot of it will be driven by some of the strategic plans that are in place, which we will not have information on at the time. Again, our hope is to provide a trend line for you of what you can expect for two (2) more years. We worked with the GFOA to get us some help in providing a longer term plan and we will likely incorporate that into future budgets.

Councilmember Yukimura: Thank you.

Committee Chair Chock: I am going to give it to Councilmember Hooser, but in terms of timing, I am thinking that we probably want to get back to this fairly quickly or soon after the new Council gets together in talking about the trend lines and the strategic plans. I just want to forecast when we are looking at that possibility, so that we do not lose sight of it because things get pretty crazy in December/January.

Mr. Hunt: I think the first in terms of the multiyear budget that we would be looking at would be during the March submittal for the first budget, and then there would be the back and forth prior to the May submittal. I do not anticipate us being able to provide you—the departments are not prepared at this point because we are still working on the cost-cutting side and trying to meet about an eight million two hundred thousand dollars (\$8,200,000) anticipated deficit going into the budget, so we have to give more specific instructions to the departments as they craft their own budgets.

Committee Chair Chock: I just want to clarify because the way I see it is if we are talking about at countywide budget, that should be the guidance for the departments, not vice versa. I think that discussion needs to happen much earlier.

Ms. Nakamura: I think we can maybe work with the leadership of the Council to figure out—there is not a lot of time between December 1st and the submittal of the budget, but to have some discussions early would be helpful.

Committee Chair Chock: Thank you. I just wanted to make that clear.
Councilmember Hooser.

Councilmember Hooser: I appreciate your presentation very much. I think it is great and I am sure the public appreciates it too. I will start with the multiyear. So really to go to a biannual two (2) year budget would take a charter amendment probably to require that and I think what we are looking at right now is an example of why we need one, and I will just advocate for that for a second. We know we are eight million dollars (\$8,000,000) plus or minus already, so with a two (2) year budget, we are out of whack already, but with a one (1) year budget, we

think we are okay, but we are really not. So it would force us to deal with that issue on a more long-term, so I would support that one hundred percent (100%). I think the attitude or the opinion missing from the discussion, and I will throw it in right now, is a greater sense of urgency. A member of the public talked earlier about us being bankrupt, and one could argue that we are in pretty dire straits. Was it four million dollars (\$4,000,000) or five million dollars (\$5,000,000) or less of reserve and a big budget? That is what I would like to see more, which is that urgency. Specifically, while I agree with a surgical approach or a right-sizing approach, a more thoughtful approach to budget cutting is preferred. Given the urgency, why not institute a hiring freeze immediately? Immediately would be six (6) months of our budget, which would save two million dollars (\$2,000,000) right away on this year's budget that we can apply next year. Then while that hiring freeze is in place, look at the... you called it a "vacancy review process" and this other thing, so if you could address that. I really feel a sense of urgency and I do not believe we can tax our way out of it. I do not think we can wait until the next budget, and certainly with the incoming Council and the attitudes that have been presented, it is going to be very difficult to do that. Can you talk about the hiring freeze?

Mr. Hunt: Sure. I think with the freeze approach, you have some issues because some positions are chartered and some positions are regulatory in nature and you cannot go without that position. If a certain position opens up, we cannot just say "freeze it."

Councilmember Hooser: If I could interrupt, the presentation said if we do a freeze, we save about four million dollars (\$4,000,000). Are you now saying that is not an accurate slide? We cannot freeze and we cannot save that much money?

Mr. Hunt: Well, to be honest, I have not looked at the eighty-three (83) positions to see which ones are regulatory or chartered.

Councilmember Hooser: Okay.

Mr. Hunt: With the assumption that all the eighty-three (83) are available to freeze and we did that for the remainder of the year, then that may be one option. That is not something I am willing to commit to without speaking to the Mayor and Nadine.

Councilmember Hooser: I know you are not going to make decisions today...

Ms. Nakamura: No, we are not, but what we can do is take a look at that list and see how many are chartered or regulatory where you have to fill the position, and then we may have more discretion. We did not do that filter for this presentation, but that is one of the options that we threw out there. Because we thought this was just to have a preliminary discussion and put everything on the table, so that was one of those options.

Councilmember Hooser: Okay. If you could redo that slide to say what is real, what positions are freezable, and how much would that save, I would appreciate that if you could present that in writing to us or something like that, just so that we get a real idea if we can save that money or not.

Ms. Nakamura: But you are saying use that as an interim freeze to have the time to fully analyze those positions, is kind of what you are...

Councilmember Hooser: What I am saying is to recognize the urgency of this big hole that we have to fill, and yes, use it as an interim to say, "Let us freeze everything and take a closer look at this." We talked about the level of service.

Ms. Nakamura: Yes.

Mr. Hunt: Yes.

Councilmember Hooser: The level of service that we have now reflects those vacancies, so one could argue that the level of service would not change if we froze all of these vacancies, right?

Ms. Nakamura: There are other departments where because of those vacancies, we are paying overtime or people are really overloaded or putting in a lot of... people who come in... there are very dedicated employees who come in on weekends and so forth to catch up on work because of these vacancies. So it is a combination.

Councilmember Hooser: Okay. I ask you to look at that slide again, do the filter, and if it is being offset by overtime, then that is part of that formula, too. So the savings that were put up on the board as potential, I would like to see the actual... a more real number that would reflect the filter and reflect this overtime that we are talking about.

Ms. Nakamura: Right. The other option is to ask the departments to look within their own budgets and to see where they believe the cuts should be, rather than us telling them, "You shall do it by positions." That is another approach as well.

Councilmember Hooser: I fundamentally believe in that approach, but the Council should not be telling the Administration how to make the cuts because you know better than us and your departments know better than you, probably. I one hundred percent (100%) agree with that approach, but I want to reemphasize the urgency. Everybody here is aware of the public reaction to the tax increases that were made and I do not envision us going through that of any significance again. Yet, I understand that we have to balance the budget, so I think the hiring freeze, I think, is an option that I would like to see. I would like to say for the record that I would support the Council following that same lead. I know we have vacancies here and I know that many would argue that we need to fill those vacancies, but I would say we should set an example and do the same freeze and look at our real needs. That is one Councilmember speaking. I think we should walk the walk as well.

The other question I had, if I may continue for a second. To me, looking at number one, acknowledging the urgency is important and not waiting until the next budget to make eight million dollars (\$8,000,000), but start making that now to try to reach those savings. A hiring freeze is one potential and the other, of course, is the "share the pain" approach. I have advocated for that before because I just saw that as an easier way to implement. Can you comment on that? Is that a five

percent (5%) across the board? I know some smaller departments get more impacts and that kind of thing, but can you comment on that?

Mr. Hunt: I know we looked at sort of just on the percentage of the current operational budget, if we were to take the departmental portion, the percentage of that budget and allocate it to what we believe are anticipating in deficit at about eight million two hundred thousand dollars (\$8,200,000). It ranges from a small budget of about forty-eight thousand dollars (\$48,000) cut to a high of about one million nine hundred thousand dollars (\$1,900,000) cut.

Councilmember Hooser: Okay.

Ms. Nakamura: As you said, taking the leadership, the Mayor's Office—there was a vacancy in Boards and Commissions and we will not be filling that vacancy. The additional staff members will be taking on the load, but there will be service impacts to that, but we will be not filling again this year, our State Lobbyist position. Our staff will be picking up that additional work, working with Council Staff. During certain periods like the Legislative Session, we are going to expect our staff to be doing more work in this area that will impact Boards and Commissions' work product. That is the kind of impact that we are going to have to accept as we go through this.

Councilmember Hooser: I understand that.

Ms. Nakamura: I think we are very clear about the need and we are taking steps. I think this is really the beginning of that discussion.

Councilmember Hooser: I applaud that and thank you for that. For me, the underlying principles are the urgency in working on it now and not waiting until the budget gets here. We have the ability, and I applaud the Director for moving in this direction, to effect revenue measures now and not wait until the budget comes, so those impacts start, and the same with some of these other measures. Whether they are cuts, we do not have to wait. I would love to work with the Administration in support of that, so when we get to the budget, the Administration's budget is a budget—I will just speak for myself—I would like a budget that I could say "yes" to that minimizes tax increases, acknowledging that the pressures and realities of running the County. Thank you.

Committee Chair Chock: I had a few questions. I want to thank you folks as well. I think the presentation is great in terms of what the options are. I am hoping that still along the lines of the urgency question is that we can continue to have the dialogue, so that we can see where the priorities will be, especially in the areas of making the choices of where the potential cuts may be. We have some choices here. Some are more drastic than others, but sooner or later, we are going to have to prioritize which ones come first. I would love to be able to have that insight. This might be a County Attorney question, but one of the areas that I know regarding the private sector, slide 66, about outsourcing and privatization of some of this work with the Konno Decision. It just seems like a stumbling block, which I am not sure that I am ready to leave alone. What else can we do? Where else can we go with it to see solutions come forth? I think that could really sort of take us around the corner in terms of what it is we get done in our County, everything from parks questions, our roads, and so forth, or any other construction. I would love to have that continued dialogue on a larger level, if I can. I do not know if you have...

maybe it is Ernie. I know some of this is procurement. We have talked about it briefly. How do we change the challenge to an opportunity? I really want to see that. I do not have an expectation of an answer.

MAUNA KEA TRASK, First Deputy County Attorney: Good morning. For the record, First Deputy County Attorney Mauna Kea Trask. Forgive my throat right now, but Konno is a case that arose out of, I believe, Third Circuit, Hawai'i Island County. They were sued by a union. I believe it was UPW for a solid waste contract that they had for running the landfill. It is a complicated piece, similar to what the County had done, which essentially, we contracted with Waste Management back in the 90s for them to run the landfill for two million dollars (\$2,000,000) a year. They were in charge of everything. The Hawai'i State Supreme Court said, "Under the State labor laws of the State of Hawai'i, you could not do that," like the slide stated. Certain positions that were traditionally/customarily done, whatever the specific standard is, cannot be privatized due to the strong labor laws, which touches on what our Director of Finance and Managing Director said about the County of Kaua'i's unique bargaining position or arguably, lack thereof in negotiations. This is a Supreme Court decision; it is not subject to appeal. What you would be looking at is really an overall State labor law, which entails what that entails. We are always happy to have a decision, so we appreciate that as well.

Committee Chair Chock: Was the decision specific to an area or is there any leeway in terms of other areas of service?

Mr. Trask: They see that sometimes the rule lies in the exceptions, so when you want to get really specific, it would behoove us to review the case. We should probably talk offline, but what happened to the Konno Decision, that is what that came down. It became that every single County found themselves in a similar case. Ours was filed against us, I think, both in State and Federal Court and we entered into a consent agreement because the ruling was there, so we just followed suit. It does have far reaching affects over all bargaining units that fit within that general standard.

Committee Chair Chock: Okay. I think there is more to talk about, but I appreciate the start of it. Thank you.

Mr. Trask: Thank you.

Committee Chair Chock: Councilmember Yukimura, I will give you the floor.

Councilmember Yukimura: Thank you.

Committee Chair Chock: We have to take a caption break in five (5) minutes.

Councilmember Yukimura: Yes. While we are on the subject of labor negotiations, in looking at the arbitration agreement on the recent Police pay increases, I think one of the key changes we need is to make sure that the reserve is off bounds for collective bargaining. I cannot imagine that we would try to keep the reserve based on best practices, and then have the Union come in and say, "Because you have this big reserve, you should give us our pay increases." That makes no sense at all that this reserve that is supposed to be off bounds and be kept for

emergencies for a budgeting safety and all of that, would be something that the unions could point to as a reason they can have raises. If there is any way we can impact the labor negotiations because in the long run, it is beneficial to the unions. To have their pensions at stake now like in Detroit because the County has gone bankrupt is not good for the unions either. I think good budgeting practices benefit the County employees and I think that has to become part of the fabric and framework of negotiations for it to make sense. I am asking that you folks give that input as you participate in the process.

Mr. Hunt: Did you want a response?

Councilmember Yukimura: Yes.

Mr. Hunt: I do not know if we can keep it off balance, certainly when we were telling our story as to how we got here, pains we have gone through, exhausting our existing fund balances, and the efforts, including near tax revolt this year to get the revenues that we need to build those fund balances again. We could tell that story, but that does not guarantee that those are going to be off limits. Part of the solution is dealing with the other Counties and their own strategies because if you are coming in with a County that historically budgets for vacancies and anticipates using those lapsed funds to build their fund balances, you are already competing against another County that has made that part of their strategy, so even though we are being very fiscally responsible by budgeting very close to actuals and not having these large fund balances and are trying to take a very systematic and disciplined approach to building fund balances again does not mean they are going to be off the table. It is a nice request, but we just have to tell our story to say that this is what we need and this is why we are building it.

Councilmember Yukimura: I do not agree with that. I think that the State Legislature could even require Counties to keep certain reserve balances, not that they follow those rules because it is in everybody's interest. You do not want to get to the situation where pensions and other things are threatened, so we might do it that way by going forward with legislation.

Mr. Hunt: That is what it would take. We would have to have something legislative to keep that off limits, but just from an appeared bargaining negotiation. They are going to show the fund balances and look at the CAFR to see what you have.

Councilmember Yukimura: Okay, but Kaua'i has been leading the way in many places and this might be a way to lead the way.

Ms. Nakamura: As long as the City and County of Honolulu keeps a huge fund balance... I think it was one hundred sixty-eight million dollars (\$168,000,000). It is their second largest source of revenues, which is their carryover fund balance from the previous year, and as long as that shows up on their CAFR, it is a very difficult argument to make that the City and County of Honolulu does not have resources to pay for increases. It is not just our own County, but it is the other accounting practices of other Counties that impact our positions.

Councilmember Yukimura: Right. They may have too big of a reserve, and that is also an issue. If everybody can agree on a certain minimum best practice reserve and the government finance people have given us some guidelines,

that might be a good way to get good budgeting throughout the State of Hawai'i and we should be advocating that.

Mr. Hunt: As Chair Furfaro mentioned earlier, until we get to the point of having our own independent bargaining, we are still at the whim of what the total State decides, and again, we have one (1) vote on that. Even if we decide that we want to keep our fund balances out of it, it is the negotiation of entire bargaining unit that is going to impact us, and we have to be able to fund that, until we get to a separate...

Councilmember Yukimura: You are not hearing me. I am suggesting that you advocate that it be a rule of principle or law for all Counties that you make it part... and you raise the issue with all the other Counties, so they can have a discussion on that issue.

Ms. Nakamura: I think that is where HSAC and the Hawai'i Council of Mayors (HCOM) comes into play if it is going to be a statewide effort.

Committee Chock Chair: We have to take a caption break, so you have five (5) seconds to pose your question, and then we will come back to it.

Councilmember Hooser: Yes. I have additional comments for the Administration and the County Attorney perhaps, but maybe other members, unless we want to ask, they could go back to work. I appreciate them being here, but they have lots of other work to do.

Committee Chair Chock: We can clear that up. If there are any specific questions, we can let people know, come back from our break, and wrap this up. Is that right?

Councilmember Hooser: Right.

Committee Chair Chock: Okay. Let us take a break now. Thank you.

There being no objections, the meeting recessed at 11:24 a.m.

The meeting reconvened at 11:39 a.m., and proceeded as follows:

Committee Chair Chock: *Aloha.* We are back from our caption break. I believe Councilmember Yukimura still had the floor.

Councilmember Yukimura: I believe several of the bonding companies, but at least one mentioned our enterprise funds and how so many are in "deficit", so to speak. They may not even be formally enterprise funds, but they are in the nature of enterprise funds like our solid waste, golf course, water, and sewers. We are subsidizing the golf course operations by one million dollars (\$1,000,000) a year from the General Fund. I think that is an overlooked area, in terms of helping us balance the budget. So, I would like to know what plans the Administration has to solve that problem. The golf course, in my mind, does not have to make a profit, but it should be generating more of its revenues. In fact, it is at risk in the long run because it does not have any reserves, which is a very poor operating situation. I think that area— if you could shake loose one million dollars (\$1,000,000) to go back into the General Fund, that is a major piece of revenue. What is the Administration's plan, if any?

Ms. Nakamura: Well, at this point, we do not have a plan to raise revenues in the near future. It is something that can be looked at, and I think the Council has the authority to raise those revenues. In this next go-around, as we prepare for the budget, that is something that we can certainly look at. We have invested in improvements to the facility and the restaurant. We have put a lot into the facility, the golf course itself, and it is looking great. I think it is an area that can be looked at further.

Councilmember Yukimura: The Council will not do any fee-setting unless there is a plan proposed by the Administration. We do not have the knowledge or the background to do that, so it would have to come from the Administration. I did propose a charter amendment that would have allowed the Council to delegate with conditions if we wanted to, such as making sure we would have a resident rate, *kama'āina* rate, etcetera, we could do that, but delegate the fee-setting powers to say a golf course manager. Right now, we cannot even participate in Coconut Coast promotions because the fees right now are set by the Council. It does not give the golf course the flexibility it may need.

Ms. Nakamura: Another consideration, I think in this last budget process, was that the private golf courses were having difficult times just maintaining their operations. Golf is not as popular as it used to be and part of the reason is the cost of baggage now when you travel; the extra costs of bringing your golf clubs to this island, and then just the decrease in golf users. There is a concern, too, about competition with the private golf courses that we need to take into account.

Councilmember Yukimura: What is the concern about competition?

Ms. Nakamura: That some of the private golf courses are struggling.

Councilmember Yukimura: That we should not compete with them?

Ms. Nakamura: We should be very careful about how we price our golf fees.

Councilmember Yukimura: You mean that we should not undercut them. Is that what you are saying?

Ms. Nakamura: That is one of the considerations.

Councilmember Yukimura: Each golf course should run as a private enterprise, right? We run it the best way we can to serve public need. But I do not get it because we have one of the best golf courses in the Country, so why could we not do the best that we can to support it and make it run the best we can?

Ms. Nakamura: Well, there are a lot of considerations, as you are aware of like the use of the course. We did put in funds in this last budget in Parks and Recreation to do some marketing of the golf course, and the marketing would be to attract tournaments to the golf course as one opportunity.

Councilmember Yukimura: Does that bring money in?

Ms. Nakamura: Yes, it does bring money in for the use of the golf course and other tourism dollars.

Mr. Hunt: There is another area that will open up in terms of cost savings, which is the infrastructure that we have invested in, the irrigation system, which I believe... I am just going from memory, but it maybe has about three (3) more years left on the bond, so as that pays off, I believe it is over two hundred thousand dollars (\$200,000) in costs that we are paying for the golf course. That will be a reduction in moneys that are being sent to the golf course operations from the General Fund to pay for that debt service.

Councilmember Yukimura: So you are saying that we can look forward to the subsidy of one million dollars (\$1,000,000) being reduced by about two hundred thousand dollars (\$200,000).

Mr. Hunt: If the same level of maintenance requires the same cost, yes. Once that bond has paid off, that will be a realized savings in retired debt.

Councilmember Yukimura: Have you really explored whether or not a different set of— the power to set fees is also the power to lower fees. So it is not necessarily that it is always going to raise fees. In fact, as you know, the market shifts, and the skill in running a business is about shifting with the market. I recall that when tourism was booming, we took so long to set the fees that we missed that boom, and then we lowered the fees too late. We missed a lot of opportunities is what I am saying.

Ms. Nakamura: The other consideration, too, is that you may hear from golfers that we do not charge for the use of tennis courts, softball fields, and baseball fields; we do not charge for soccer field usage; and that the Wailua Golf Course should not be expected to pay for itself because we subsidize all of these other recreational uses on Kaua'i.

Councilmember Yukimura: Why not?

Ms. Nakamura: It is a policy decision.

Councilmember Yukimura: Correct. Has the Administration adopted that policy?

Ms. Nakamura: I would say that we have a general policy, currently, of not charging for other uses while other Counties do charge.

Councilmember Yukimura: Well, I am not proposing that. I am just asking whether you are satisfied with the management and fee-setting of the golf course such that you are willing to have it subsidized at a tune of one million dollars (\$1,000,000) a year.

Ms. Nakamura: I think that is our current policy and it is something that we can revisit and take a look at.

Councilmember Yukimura: Okay. Your point about golf clubs is a business opportunity, right? We took back... there is some vendor now running the shop, right? But that is an opportunity to rent out clubs. If there is a study that

has been done that says "the golf course use is dropping; therefore, we should not have any expectations of this level of use and therefore, we have to lower our fees." That is one thing, but I am not convinced. I do not believe there is a study yet that shows that you could not have a different arrangement of fees that might raise money and also have somebody there paying attention to reserves and those issues of preventative maintenance as well, to really see if we are getting the optimal use and management of an incredible resource for now and into the future. If there is no reserve, then we are in danger in the long run, too.

Mr. Hunt: I think if we were looking at the industry in a growth industry, and our course was not getting its fair share of play, then I would have concerns, but in the contracting industry, and I am putting on my appraiser hat here as well; if we are looking at cannibalizing from other golf courses, we could potentially be driving down recessed values because they are not getting the rounds of plays that we have stolen, if you will, cannibalized. They are based on their ability to generate revenue as well, so that the market value of those courses is partially based on their fees and rounds played.

Councilmember Yukimura: So you are saying that it should be part of our public policy to operate the golf course so as not to compete with the other golf courses. Is that what you are you saying?

Mr. Hunt: I am just saying that there is a recourse that we could lose tax base revenue from property taxes on golf courses by increasing our play if we are taking their paying customers from the private golf courses or semiprivate courses and having them play on our course.

Councilmember Yukimura: By that, you should shut down the golf course then.

Ms. Nakamura: Well, I think that is one consideration,
Councilmember Yukimura.

Councilmember Yukimura: By that reasoning, I am just extrapolating. I am not suggesting it. I am trying to understand what the best policy is for our incredible resource because I see it as a resource.

Committee Chair Chock: I think the message that you are portraying is clear. So maybe we can move it towards a direction of more introspection like a plan or at least a gathering of information, so that we can make a determination. Maybe it is collaborating closer with some of the other companies on the island. I would like to move us along if we can.

Councilmember Yukimura: Okay. I believe when the Managing Director was a Councilmember, we both wanted to do a strategic plan for the golf course.

Committee Chair Chock: There you go. May you concede the floor to Councilmember Hooser?

Councilmember Yukimura: Yes, of course.

Councilmember Hooser: I was just going to say that I think we have explored this issue sufficiently, and we are straying into an area that should be a

separate agenda item if we are going to go further. I have a different question, if I may? Is that okay?

Committee Chair Chock: Please.

Councilmember Yukimura: Yes.

Councilmember Hooser: The collective bargaining issue— it is my understanding the way the process works, which is this joint group, State and all the Counties, negotiate with the various collective bargaining units and employees, and reach an agreement of some sort at the end. Then they go to the various Councils and legislative bodies to fund those agreements. Do you know of any instance where the legislative bodies have ever failed to fund those agreements historically?

Mr. Hunt: I personally do not know of any incident. I know it is within your prerogative to do so and I believe it then gets kicked back to either the bargaining unit or the collective bargaining as a whole, or it actually may head to the courts.

Councilmember Hooser: So if one (1) legislative body of the group failed to fund it, does it nix the whole agreement statewide or just for that county?

Mr. Hunt: We are venturing outside of my knowledge here.

Ms. Nakamura: Yes. We can ask Tom to come up to answer it, but I believe it is statewide, that we are one of...

Councilmember Hooser: Okay. So for example, if this Council did not fund a collective bargaining agreement, then would none of the agreement go forward with the other Counties? The follow-up question that the County Attorney can think about is, "What are the legal implications?" Would we get sued for not funding, for example?

THOMAS T. TAKATSUKI, Acting Director of Personnel Services:
Thomas Takatsuki, Acting Director of HR. My answer to your question is if any of the jurisdictions, the legislative body, does not fund the proposed contract, everything goes back to negotiations. Then we retake it up and hash it out again. It is not only one (1) jurisdiction that gets affected; every jurisdiction is affected when one (1) of the legislative bodies do not fund that collective... every jurisdiction, including the State, goes back to the legislative body for the proposed funding bill, and then if one (1) of the jurisdictions do not fund, then it goes back to the (inaudible).

Councilmember Hooser: So it seems like most of the discussion is based on the State having all of the power because they have more votes. They just need one (1) other County...

Mr. Takatsuki: Correct.

Councilmember Hooser: But in actuality, every County Council has veto power if they fail to fund it.

Mr. Takatsuki: Correct.

Councilmember Hooser: To your knowledge, has that ever been done?

Mr. Takatsuki: Since I have been involved, no.

Councilmember Hooser: Okay. This may be a legal question, but the negotiating is not a contract until it is funded, I am assuming because that is what it sounds like. A contract would have to be legally... you would have to fulfil it.

Mr. Takatsuki: That is one of the articles.

Councilmember Hooser: Yes. I have to ask the County Attorney, but thank you. Can we ask the County Attorney? The basic question is the Kaua'i County Council specifically obligated to fund the collective bargaining agreements that are negotiated, and if failed to fund that, what would be the legal implications, if any?

ALFRED B. CASTILLO, JR., County Attorney: Councilmember Hooser, I understand your question, but I am sorry because I do not think any of us have that answer right now. We would like to do research on that. That is our answer right now.

Councilmember Hooser: Okay. There are two (2) parts to the question: one, are we illegally obligated to do it; and the other is what the implications are.

Mr. Castillo: Yes, we will answer your question.

Councilmember Hooser: Okay. Thank you very much.

Mr. Castillo: You are welcome.

Committee Chair Chock: This brought to mind something that I was working on, but I was wondering if we might be able to work closer together as well, which is looking at some of how we use our County resources to service some of what the State functions are on our island. I started some of that process with our public safety departments, but again, I think the message from the Chair earlier was about a unified messaging. If we could, I would like to follow-up on that collectively because it has gone so far and has not gone any further. I would be happy to share that with you folks in terms of getting some support on that. That is all I have. Councilmember Yukimura.

Councilmember Yukimura: Thank you. On page 13, you show the "Special Counsel Expenditures." Over one (1) month ago, I put in a request to the County Attorneys to get a department-by-department, actually a manager-by-manager breakdown of litigation costs, and I believe the deadline has been way past for getting that information. So could you follow-up, so that I could get that information, please?

Ms. Nakamura: That would be Special Counsel by department?

Councilmember Yukimura: Yes. Well, we made it pretty...

Ms. Nakamura: Expenditures...

Councilmember Yukimura: Yes, litigation costs by department and by managers, and it went back several years. Some of these costs started prior to the year in which they were expended. Also, on page 37, you were talking about Solid Waste and RFI, which I heard through the grapevine, but I would like to be briefed on this and would like to ask that maybe we schedule it in the appropriate committee?

Councilmember Hooser: RFI?

Councilmember Yukimura: Yes, "Request For Information." There is some reference back to waste to energy and other things like that. This is a new thing that the Council has not been involved in and I believe we should be briefed on it.

Ms. Nakamura: We would be happy to schedule either one-on-one meetings or if you want a committee meeting briefing, that would be fine.

Councilmember Yukimura: I think it should happen in a committee meeting, so that the public can also be briefed on it.

Ms. Nakamura: That would be fine.

Councilmember Yukimura: Okay. Thank you.

Ms. Nakamura: Let me just check to make sure that procurement wise, if the one-on-one briefings would be better. Okay, it would be ill-advised to do it in public, so it would probably be better to do it one-on-one because there is an ongoing procurement process.

Councilmember Yukimura: Okay, but the request for information is public information, right?

Ms. Nakamura: That itself is.

Councilmember Yukimura: So if you could provide that and do one-on-one briefings, that would be great.

Ms. Nakamura: Yes.

Councilmember Yukimura: Lastly, on page 5, slide 10, where you showed that real property taxes declined by ten million eight hundred thousand dollars (\$10,800,000) over a period of two (2) years, Fiscal Year 10 to Fiscal Year 12. To what extent was this due to the cap?

Mr. Hunt: The cap...

Councilmember Yukimura: Was throughout...

Mr. Hunt: Some people were coming off the cap because their market values were being reset below where they acquired them or when the

cap began. Other people were still paying incrementally more under the cap if their property values had been established a long time ago or at rates that were very low. I cannot really actually tell you as a group, but we are just looking at the total tax base, which includes people that were on market and the market value declined year after year during this period, that they were actually getting lower tax bills because the rates were not adjusted during that period. From the homeowners, it is a mixed bag because some were still paying if they had a very, very low value and market values increased. Even though, they were declining, they were still higher than when the cap initiated for them. They were still paying incrementally more.

Councilmember Yukimura: Okay. Thank you very much.

Ms. Nakamura: Another point to make is that it was during this very difficult financial period, a recession, that the public policy was set not to increase tax rates during this time.

Councilmember Yukimura: Right. Though, a great part of the reduction was due to not raising the rates on hotel and commercial, if I remember correctly, right?

Mr. Hunt: I think all properties were having those challenges with valuation.

Councilmember Yukimura: But it would not have been raising their taxes?

Mr. Hunt: Even if there were a revenue-neutral proposal, it still would have meant raising taxes to get to that neutrality position from a prior year. Again, it was just market forces driving values down. You have to account that even during this period, there was still some expansion because people were still building and there were still new subdivisions. It was compounded even further and that actually offset where the decline could have been, had there been no growth at all during that period.

Councilmember Yukimura: I believe in terms of homes that it was mainly second homes that were being built at that time and primary homes were not.

Mr. Hunt: Yes.

Councilmember Yukimura: Okay. Thank you.

Committee Chair Chock: I believe that concludes our questions. Thank you for sharing. If you would like an opportunity for any closing remarks, that is fine. We will get everyone work. I look forward to more discussion real soon. Thank you. I will call meeting back to order and open up if you folks have any closing remarks as well.

There being no objections, the meeting was called back to order, and proceeded as follows:

Councilmember Hooser: Just briefly, I think this was a very useful workshop. I want to thank the Administration, Managing Director, Director Hunt, and the Mayor who had to leave, for taking this with the seriousness that it

deserves. Clearly, you put a lot of work into it and you have all of your directors here shows the importance that you share with the Council. I appreciate that. I guess the only closing points that I brought up earlier was the urgency of the matter, that we do have urgency and we need to take steps now, whether it is freezing positions or other types of cuts, rather than wait until the next budget. The solution to meeting our budget needs have to be shared with revenue and with budget cuts. It cannot be all revenue as the taxpayers just cannot take it and should not take it all. I recognize from this and just from my own experience of the challenges of cutting. We have a lot of services that the public demands. We need to provide those services properly, take care of our parks, fund the lifeguards, and so many other things. This was a good step down the road and I think it is good that we are starting this early, so as we move forward to the next budget, we will be in much better shape in terms of education and information, if nothing else. Thank you, Chair, for putting this on today.

Councilmember Yukimura: I want to thank Councilmembers Chock and Hooser for scheduling this and asking for it. I also want to thank the Administration for an excellent presentation, sharing the information, and acknowledging the teamwork that has to be done both within the Administration and between the Council and the Administration. I really urge members of the public, as well as our other colleagues on the Council and new Councilmembers, to review this session and the PowerPoint presentation, so that we can all be informed as we work on this very complex, difficult balancing act. As Councilmember Hooser has said, it is not just about revenues, nor it is just about cutting costs, but it is about overall good management and providing both for the present and for the future. It is a lot of things to balance. I just want to say that to cut on preventative maintenance is just counterproductive because we all know when we do that, the bill is higher. There is just no choice. We have to do preventive maintenance. Now we are looking at a one hundred million dollars (\$100,000,000) backlog to bring our roads up to preventative maintenance and I am looking forward to hearing from Public Works as to the plan for doing it. But given all of those issues, I also think it is very appropriate that we look at some initiatives for funding our key programs, such as Transportation, and I hope that we will have further discussions on the Excise Tax surcharge earmark for public transportation because I think that is also part of getting a balanced budget.

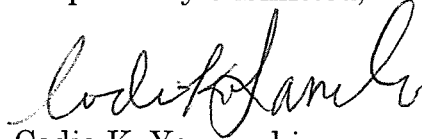
Committee Chair Chock: I think I foresee some hard decisions coming up, so I am glad to have the opportunity for some small discussion. I think it helps everyone to start to plan because I think we are all responsible, every department. I saw some of the departments that we looked at and I cringe to think that those are options that we would consider in terms of service. So to empower everyone, at every level, to come up with some proactive solutions, I think is the right step forward and to do it early. I was wondering if I could make a request to have a copy of that PowerPoint. I just cannot read the small letters for some reason. I do not know why. With that, I just want to thank you again. Have a beautiful day.

Councilmember Hooser moved to adjourn the November 6, 2014 Special Finance & Economic Development (Tourism / Visitor Industry / Small Business Development / Sports & Recreation Development / Other Economic Development Areas) Committee Meeting, Cost Reduction Workshop, seconded by Councilmember Yukimura, and carried by a vote of 3:0:4 (*Council Chair Furfaro, Councilmember Bynum, Councilmember Kagawa, and Councilmember Rapozo were excused*).

ADJOURNMENT:

There being no further business, the meeting was adjourned at 12:10 p.m.

Respectfully submitted,



Codie K. Yamauchi
Council Services Assistant

APPROVED at the Committee Meeting held on January 7, 2015:



ARRYL KANESHIRO
Chair, Budget & Finance Committee